COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.:	1375-02
Bill No.:	HB 670
Subject:	Economic Development; Economic Development Department; Taxation and Revenue - General
Type:	Original
Date:	March 7, 2011

Bill Summary: This proposal provides tax incentives for job creation and retention and capital investment.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	$0 to (Unknown greater than $34,399,749)	$0 to (Unknown greater than $48,584,714)	$0 to (Unknown greater than $74,439,366)
Total Estimated Net Effect on General Revenue Fund	**$0 to (Unknown greater than $34,399,749)**	**$0 to (Unknown greater than $48,584,714)**	**$0 to (Unknown greater than $74,439,366)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 15 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Park and Soil Fund	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Conservation Fund	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Compete Missouri Job Development Fund*	$0	$0	$0
Compete Missouri Community College New Jobs Training Fund*	$0	$0	$0
Compete Missouri Community College Job Retention Training Fund*	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

***Note: Amount of funding equals grants awarded and nets to zero.**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Sections 144.062 and 144.540 Sales Tax Exemption
Officials at the **Budget and Planning** (**BAP**) assume the sales tax incentives allow DED to provide any qualified company with state sales tax exemptions and Local governments may provide similar incentives. These provisions will not impact current general and total state revenues, but may result in forgone revenue in the future. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues.

Officials at the **Department of Economic Development** (**DED**) assume this proposal authorizes an exemption of up to 100% of state and/or local sales and use taxes on tangible personal property for a qualified company that creates at least twenty new jobs with new payroll of at least 90% of county average wage. The proposal also authorizes, for a period of five years, an exemption of up to 100% of state and/or local sales and use taxes for the incremental increase in utilities used by an information technology company that creates at least twenty new jobs with new payroll of at least 90% county average wage. The amount of any sales tax exemption is limited to the net fiscal benefit to the state, which means that any project authorized for an exemption would have to generate a net positive fiscal impact to the state. However, it is unknown how many projects would be eligible for the exemption. Therefore, DED estimates an unknown positive fiscal impact of greater than $100,000 as a result of the sales and use tax exemptions provided under this proposal.

Officials at the **Department of Revenue** (**DOR**) assume DED and DOR will jointly prescribe such rules and regulations necessary to carry out the provisions of this section.

Oversight will indicate an unknown loss of revenue for the state General Revenue Fund, an unknown loss of revenue for those other state funds which receive sales tax revenues, and an unknown loss of revenue for local governments from the sales tax exemption.

Oversight assumes the changes to existing programs in this proposal would have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposals and will not reflect them in the fiscal note.

Sections 620.800, 620.803; 620.806; 620.809 Compete Missouri Training Program
Officials at the **Budget and Planning** (**BAP**) assume the proposed legislation should not result in additional costs or savings to BAP. This proposal establishes the Compete Missouri Training Program which essentially combines and streamlines three programs already in existence: the

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Customized Training Program, the Community College New Jobs Training Program (NJTP), and the Community College Retained Jobs Training Program (RJTP). While these provisions have no direct impact to general revenue or total state revenue, a couple of provisions in the proposal have budget implications.

The proposal reduces the length of time (from two years to one year) that jobs must be maintained at the project facility for the calendar year preceding the year in which the application for either NJTP or RJTP is made. This change may have implications for the number of employers who are eligible for and take part in the Compete Missouri Program.

The current authorization for the Community College New Jobs Training Program is $55 million. The current authorization for the Community College Jobs Retention Training Program is $45 million. If this proposal passes as is, the current caps would be re-authorized in statute. The proposal allows the Compete Missouri Job Training Joint Legislative Oversight Committee to raise the current caps; the committee has the same power in current statute.

Officials at the **Department of Economic Development** assume the Compete Missouri Training program would consolidate the three existing job training assistance programs administered by the Division of Workforce Development and would result in no fiscal impact on the department.

In response to similar legislation filed this year, SB 279, officials at the **Metropolitan Community College** assume a negative impact from this proposal.

Officials at the **Linn State Technical College** and the **St. Louis Community College** assume that there is no fiscal impact from this proposal.

No other Community College responded to **Oversight's** request for fiscal impact.

Oversight assumes this proposal creates a new jobs credit and a retained jobs credit that allow a credit from withholding taxes. This proposal creates the following funds:

Compete Missouri Job Development Fund which shall receive money from the general assembly. **Oversight** assumes that no funding mechanism was outlined in the proposal for this fund so Oversight is showing the funding as coming from general revenue. Oversight assumes that all money received by this fund will be distributed per this proposal.

Compete Missouri Community College New Jobs Training Fund which shall receive

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money from the new jobs credits, gifts, and other sources. **Oversight** assumes that all money received by this fund will be distributed to per this proposal.

Compete Missouri Community College Job Retention Training Fund which shall receive money from the retained jobs credits, gifts, and other sources. **Oversight** assumes that all money received by this fund will be distributed to community colleges per this proposal

Sections 620.200, 620.2005, 620.2010, 620.2015, 620.2020 Compete Missouri Program
Officials at the **Budget and Planning** (**BAP**) assume the proposed legislation should not result in additional costs or savings to BAP. This creates the Compete Missouri Program which provides incentives to companies to create new jobs. BAP assumes the incentives include qualifying companies that meet job creation and wage requirements will be able to retain a portion of the withholding taxes generated by the new jobs. These companies may receive both entitlement and discretionary tax credits in addition to the withholding incentives. The amount of credits issued shall not exceed the projected net benefit to the state. In lieu of these benefits a qualifying company may elect to solely receive tax credits based on projected new jobs created. Limits on this specific proposal are $15M in FY 2012, $30M in 2013, $45M in 2014 and $60M in 2015.

The maximum amount of tax credits that may be authorized under this program for any fiscal year shall be $111M in FY 2012, $126M in 2013 and $141M in 2014 and forward. Previous obligations under the BFC, BUILD, Development, Rebuilding Communities, EEZ, or MQJ programs will count against these limits. No further obligations will occur under these programs as of August 28. 2011.

To the extent that participation in the Compete Missouri program otherwise exceeds participation in the terminated programs, general and total state revenues may be reduced. Tax credits issued as refundable that otherwise would not have been under the existing programs will reduce general and total state revenues in earlier years. This proposal may encourage other economic activity. BAP cannot estimate the induced revenues.

Oversight assumes the changes to existing programs in this proposal would have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposals and will not reflect them in the fiscal note.

Officials at the **Department of Economic Development** (**DED**) assume this proposed legislation creates the Compete Missouri Program, which includes the Compete Missouri Training Program administered by the Department of Economic Development (DED), Division of Workforce

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Development (DWD), and the Compete Missouri Business Incentive Program, administered by DED's Division of Business and Community Services (BCS).

The Compete Missouri Business Incentive program would operate in a similar fashion to the current Missouri Quality Jobs program by providing performance-based benefits in the form of retained withholding taxes and tax credits to qualified companies that create new jobs. The proposal also authorizes the award of additional discretionary tax credits to qualified companies that create jobs and investment that provide a net fiscal benefit to the state, similar to the existing BUILD and EEZ programs. The proposal also allows for the option of up-front financing through the award of a reduced amount of refundable tax credits for projects that create a net fiscal benefit to the state.

Eligibility requirements and available benefits under the proposal are summarized below:

Qualified Companies	**Minimum Eligibility**	**Performance Based**	**Max. Additional Discretionary**	**Maximum Possible**
Enhanced Enterprise Zones and Dormant Manufacturing Plant Zones	◦2 new jobs ◦80% county average wage	Retention of withholding taxes of new employees	$0	$0
Targeted Industry	◦10 new jobs ◦90% county average wage	◦Retention of withholding taxes of new employees ◦3% Tax Credit	Up to 6% Tax Credit	Up to 12%.
Non-Targeted Industry	◦20 new jobs ◦90% county average wage	◦Retention of withholding taxes of new employees ◦2% Tax Credit	Up to 4% Tax Credit	Up to 9%

In creating the Compete Missouri Program, the proposal phases-out the six current business incentive tax credit programs, which include: Missouri Quality Jobs (620.1875), Enhanced Enterprise Zone (135.950), Business Use Incentives for Large-Scale Development or BUILD (100.700), Development Tax Credit (32.100), Rebuilding Communities Tax Credit (135.535), and Business Facilities Tax Credit (135.100). Projects previously offered benefits under these

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programs may continue to receive such benefits, but no new awards may be made under these programs. The proposal does not affect the designation of new enterprise zones and the accompanying local property tax abatement available under the Enhanced Enterprise Zone program.

The aggregate cap on tax credits for the programs being phased out under this proposal totals at least $144 million annually (not all of the programs being phased out are currently capped). The proposed program imposes a hard cap on tax credits that reaches $141 million when fully phased-in. However, recognizing the outstanding obligations under the current programs being phased out, the proposal reduces the annual statutory caps by the amount of the existing tax credit obligations under the current programs. DED assumes that this would result in an effective annual tax credit cap significantly lower than the annual statutory cap on tax credits until such time as the existing obligations under the current programs have been completed. DED assumes that the existing obligations that would reduce the annual statutory cap would include (1) tax credits that have been offered to companies under the current programs but not yet accepted; (2) tax credits that have been offered to companies under the current programs and accepted but not yet authorized; and (3) tax credits that have been authorized and/or issued under the current programs but not yet redeemed. DED assumes that obligations of tax credits in any of these three categories that are ultimately not utilized (e.g. the company does not accept the offer, the company accepts the offer but never creates the necessary jobs for the tax credits to be issued, etc.), could be utilized for proposals for benefits under this new program, although in no event could awards exceed the hard statutory cap. As under the existing Missouri Quality Jobs program, retained withholding benefits would not be subject to the annual tax credit cap under this proposal.

The chart below reflects the statutory maximum annual statutory tax credit cap under the proposal, the amount obligated as of February 18, 2011 under the current programs being phased out under this proposal, and the effective annual amount of tax credits that may be authorized for the specific fiscal year under the proposed program.

Fiscal Year	Maximum Annual Tax Credit Cap	Obligated under Current Programs	Effective Annual Tax Credit Cap
FY 12	$111,000,000	$76,600,251	$34,399,749
FY 13	$126,000,000	$77,415,286	$48,584,714

FY 14	$141,000,000	$66,560,634	$74,439,366

It is unknown how many qualified companies would seek and be eligible for benefits under this program. With respect to the performance-based retained withholding and tax credit benefits under this proposal, DED estimates an unknown positive fiscal impact of greater than $100,000 because, based on past performance under the existing Missouri Quality Jobs program, projects award such benefits are reasonably anticipated to provide an overall net fiscal benefit to the state, even if not every individual project would have a net fiscal benefit to the state. Similarly, DED estimates a positive fiscal impact of greater than $100,000 for any discretionary tax credits awarded under this proposal because the award of any such tax credits is restricted to projects having a net fiscal benefit to the state.

The maximum amount of refundable tax credits that may be awarded as up-front financing each fiscal year are as follows: FY12 - $15 million, FY13 - $30 million, FY14 - $45 million, FY15 - $60 million. As with the other discretionary tax credits available under this program, DED may only award refundable tax credits in advance of the requisite job creation when the project will have a net fiscal benefit to the state. Therefore, DED assumes that while there could be a short term negative fiscal impact from the transition to limited up-front financing, there will be an unknown positive fiscal impact in excess of $100,000 upon creation of the requisite jobs and capital investment.

In response to similar legislation filed this year, SB 279, officials at the **Missouri Development Finance Board** (**MDFB**) assume the fiscal impact is unknown. For BUILD, the annual cap is $25 million. Project authorizations are spread out over 15 years. Actual credit issuances for FY 08, 09 and 2010 are $7.5m, $5.6m, and $9.7m. There are currently 32 previously approved businesses (and 6 pending approval) that will receive benefits through 6/30/2029. Total credits authorized and to be issued over the next fifteen years is estimated at $111 million. Authorizations of BUILD in FY 08, 09, and 10 have been $7.5m, $8.2m and $9.5m. This has resulted in a incremental increase of $.5m, $.540m and $.630m over the next 15 years. MDFB estimates a Fiscal Impact for the BUILD program at -0- as all previously approved projects will continue to collect credits as long as they uphold their contractual obligations.

Officials at the **Department of Revenue** (**DOR**) assume they will need to make form changes and DOR-ITSD will need to make programming changes to various tax systems. The department's response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at

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$129,108, which is 4,872 FTE hours.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** (**DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Oversight assumes it is unclear how many companies will qualify for the sales tax exemption or withholding tax so Oversight will show in the fiscal note the cost to the General Revenue Fund as $0 to Unknown. Since the tax credits are capped each fiscal year and the number of unobligated credits is known, **Oversight** will show the loss of the tax credit revenue to the General Revenue Fund as $0 to the unobligated amount.

Officials at the **City of Raytown**, **Department of Higher Education**, **Department of Labor and Industrial Relations**, **Linn State Technical College**, **Missouri Department of Transportation**, **Missouri Senate**, **Office of the Governor**, **Office of the State Treasurer** and the **St. Louis Community College** assume that there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain

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amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
Transfer Out - Compete Missouri Job Development Fund	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - sales tax exemption (144.062-144.540)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - withholding tax (620.2000)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - tax credits (620.2000)	$0 to ($34,399,749)	$0 to ($48,584,714)	$0 to ($74,439,366)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to (Unknown greater than $34,399,749)**	**$0 to (Unknown greater than $48,584,714)**	**$0 to (Unknown greater than $74,439,366)**

PARK AND SOIL FUND			
Loss - sales tax exemption (144.062-144.540)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON PARK AND SOIL FUND	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**
CONSERVATION FUND			
Loss - sales tax exemption (144.062-144.540)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON CONSERVATION FUND	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**
COMPETE MISSOURI JOB DEVELOPMENT FUND			
Transfer In- from general revenue for providing financial assistance to companies that create new jobs (620.806)	$0 to Unknown	$0 to Unknown	$0 to Unknown
Transfer In- gifts, contributions, grants or bequests received	$0 to Unknown	$0 to Unknown	$0 to Unknown
Transfer Out - to companies for the training programs set up to help create new jobs	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON COMPETE MISSOURI JOB DEVELOPMENT FUND	**$0**	**$0**	**$0**

COMPETE MISSOURI COMMUNITY COLLEGE NEW JOBS TRAINING FUND			
Transfer In - new jobs credits (620.809)	$0 to Unknown	$0 to Unknown	$0 to Unknown
Transfer In- gifts, contributions, grants or bequests received	$0 to Unknown	$0 to Unknown	$0 to Unknown
Transfer Out- to community colleges for training project costs	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON COMPETE MISSOURI COMMUNITY COLLEGE NEW JOBS TRAINING FUND	**$0**	**$0**	**$0**
COMPETE MISSOURI COMMUNITY COLLEGE JOB RETENTION TRAINING FUND			
Transfer In - retained jobs credits (620.809)	$0 to Unknown	$0 to Unknown	$0 to Unknown
Transfer In- gifts, contributions, grants or bequests received	$0 to Unknown	$0 to Unknown	$0 to Unknown
Transfer Out- to community colleges for training programs.	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON COMPETE MISSOURI COMMUNITY COLLEGE JOB RETENTION TRAINING FUND	**$0**	**$0**	**$0**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

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FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
SCHOOL DISTRICT FUNDS			
Loss - sales tax exemption (144.062-144.540)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT FUNDS	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL IMPACT - Small Business

Small businesses could be affected by this proposal.

FISCAL DESCRIPTION

This proposal provides tax incentives for job creation and retention and capital investment.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Budget and Planning
City of Raytown
Department of Economic Development
Department of Higher Education
Department of Insurance, Financial Institutions and Professional Registration
Department of Labor and Industrial Relations
Department of Revenue
Linn State Technical College
Missouri Department of Transportation
Missouri Senate
Office of Administration
Office of the Governor
Office of the Secretary of State
Office of the State Treasurer
St. Louis Community College

Mickey Wilson

Mickey Wilson, CPA
Director
March 7, 2011

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